

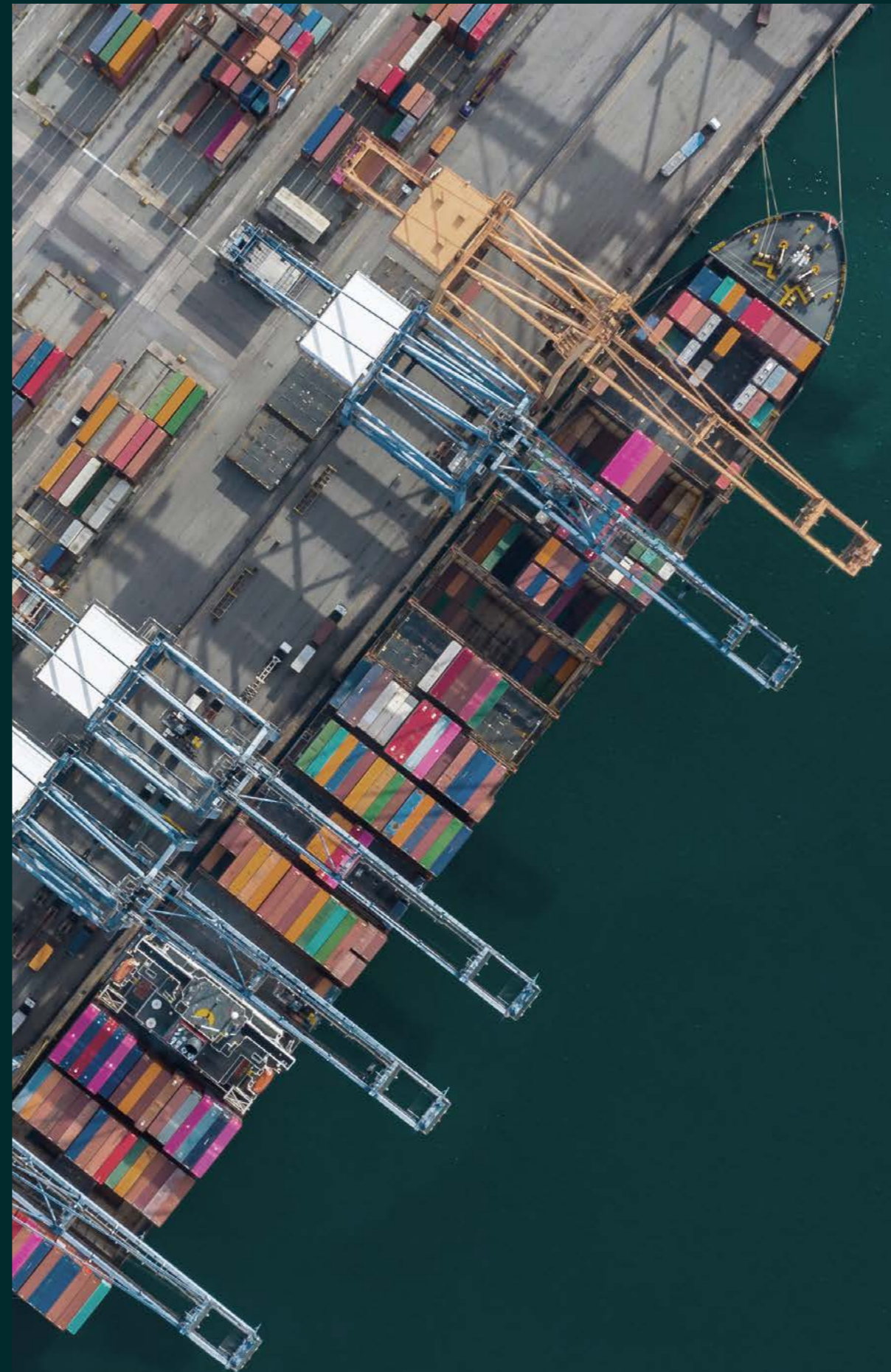
Intelligent Investment

Indian Realty Outlook: Demystifying Future Growth Opportunities in the Industrial & Logistics Sector

REPORT

CBRE India Research
SEPTEMBER 2022

CBRE



Our Projections in March 2022	vs	Reality
<ul style="list-style-type: none"> + Leasing to touch a new peak in 2022 	✗	<ul style="list-style-type: none"> + Leasing likely to remain range-bound at about 28-32 million sq. ft. after declining by 17% Y-o-Y to touch 13 million sq. ft. in H1 2022
<ul style="list-style-type: none"> + Supply pipeline to keep up with absorption; new-age supply to accommodate vertical storage 	↔	<ul style="list-style-type: none"> + Supply chain disruptions have led to a slowdown in development completions, with supply addition dropping by 32% Y-o-Y to nearly 10 million sq. ft. in H1 2022; demand for built-to-suit and taller warehouses with better specifications continues to gain traction
<ul style="list-style-type: none"> + 3PL firms to lead leasing activity; e-commerce players to continue expanding 	↔	<ul style="list-style-type: none"> + While the projection for 3PL firms remains on track, there is a short-term drop in the appetite of e-commerce players
<ul style="list-style-type: none"> + Manufacturing on the rise; supply chain resilience to be key 	✓	<ul style="list-style-type: none"> + Continued central / state government support leads to positive sentiments in manufacturing; supply chain disruptions ease but resilience remains important
<ul style="list-style-type: none"> + Technological revolution gaining ground 	✓	<ul style="list-style-type: none"> + Labour-saving building technologies on the rise

To read our projections for this sector in March 2022, please download our report -

[India Market Outlook 2022](#)

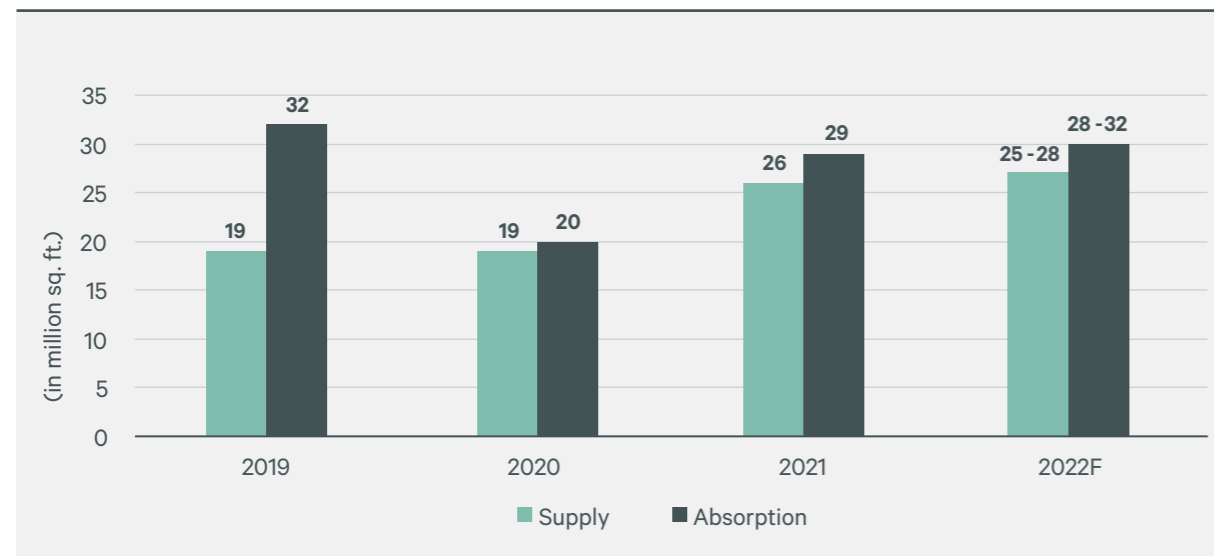


Where are we headed?

Along with the ongoing COVID-19 concerns, global events such as increasing costs due to inflation, the war in Ukraine, etc., compounded supply chain disruptions during H1 2022. These disruptions played a significant role in the decision-making sentiments of occupiers as well as the slowing down of project completions which had an impact on the leasing activity in the I&L sector. While we expect this slowdown to be a short-term aberration for an otherwise resilient sector, its impact has caused us to scale down our previous projection of a new peak in I&L leasing history. We now expect the overall leasing activity in 2022 to remain range-bound at about 28-32 million sq. ft., a growth of up to 12% on an annual basis. We anticipate that this space take-up would be led by the continued expansion of 3PL, FMCG, engineering & manufacturing along with e-commerce players against the backdrop of macro-economic recovery.

Similarly, annual supply is likely to be slightly lower than our previous estimates. However, as supply chain bottlenecks have started to ease in recent months, we expect supply addition to improve in H2 2022 and about 25-28 million sq. ft. of new warehouses to become operational during the entire year – a growth of up to 12% on an annual basis.

Figure 3.1: Supply-demand trends in the I&L sector between 2019-2022F

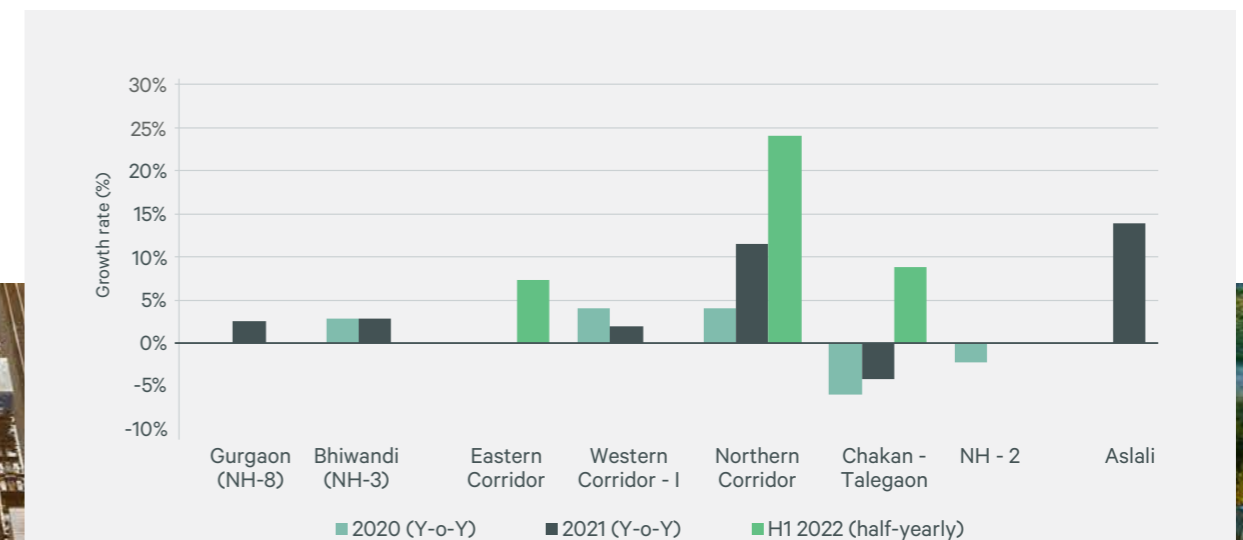
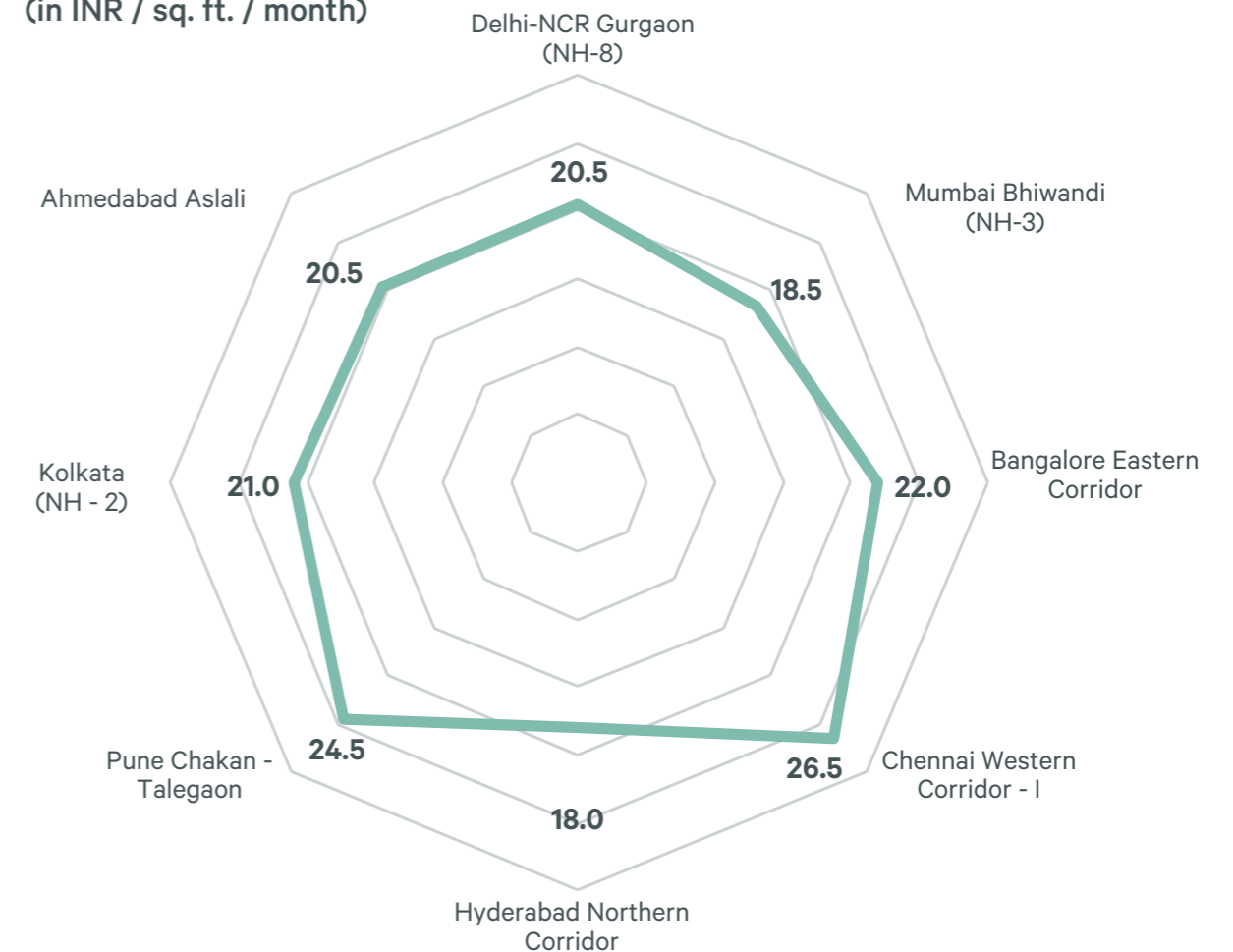


Source: CBRE Research, Q3 2022

Meanwhile, rental growth across key cities too remained range-bound during H1 2022 barring a select few cities. Expect Hyderabad and Bangalore which witnessed a sharp growth of 10-20% owing to their low base, the increase in rentals has remained confined to the 0-5% range across all other markets. We expect this trend to continue in the second half of the year as well.

Figure 3.2: Uneven rental growth recorded across the country in H1 2022

(in INR / sq. ft. / month)



Source: CBRE Research, Q3 2022



Key defining trends for the I&L sector for 2022

- + The improvement in leasing sentiments in the I&L sector would be driven by a gradual recovery from the pandemic-related downturn, improved vaccination rates, supply chain enhancements and anticipated rise in consumption. Moreover, increased focus on upgradation / expansion opportunities in tier I cities, new market penetration in lower tier cities, and extension of local distribution networks in emerging logistics hubs would drive leasing.
- + Reopening of offline stores led to a short-term drop in appetite for new space from e-commerce players. However, we expect their leasing sentiments to improve over the coming quarters as consumer sentiments are improving owing to the festive season. This is also likely to further increase warehousing space requirements of retail and FMCG players. Meanwhile, backed by the PLI scheme, we also anticipate global engineering & manufacturing firms to continue to expand as well.
- + Focus on operational efficiencies could lead to growth in 'flight-to-quality' leasing. In line with the demand, we anticipate development completions by organised players to increase.
- + Further, rising transportation costs are likely to drive occupiers to continue to lease more space. E-commerce and 3PL players would thus prefer to take up space closer to consumer hubs. Moreover, 3PL occupiers dealing with cargo handling would focus on securing warehouses closer to key transportation nodes. At the same time, engineering & manufacturing players are also likely to prefer warehouses in proximity to industrial hubs.
- + Capital flow is expected to continue from both global and local players, with both greenfield and brownfield acquisitions remaining attractive. JVs / JDs / partnerships are likely to remain the key investment routes for both greenfield and brownfield acquisitions.

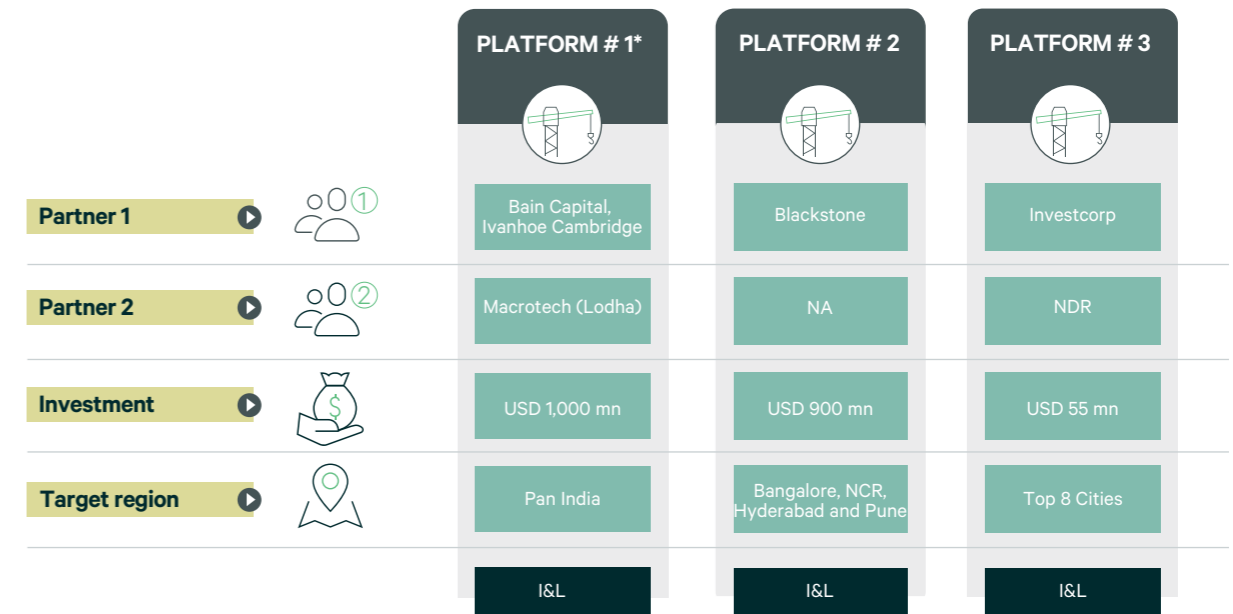
Table 3.1: Investment activity in the I&L sector in 2022

Investor	Investee	Deal value (in USD million)	Type of investment / deal
Ascendas India Trust	Arshiya Group	26	Acquisition
Ascendas India Trust	Casagrand	26	Acquisition

Source: Media articles; CBRE Research, Q3 2022
Pls note that this is not an exhaustive list

- + Considering the growth prospects of the sector, several PE players launched I&L-specific investment platforms during H1 2022. We expect to see further growth in the sector in this regard.


Figure 3.3: Investment and development platforms worth almost USD 2 billion set up in H1 2022




Source: CBRE Research, Q3 2022

- + Warehousing facilities with features such as green buildings, better clear height to accommodate automated stacking systems, adequate parking space, better floor quality, roof insulations, fire safety systems and power back-up provisions are likely to gain more traction. Warehouses in India would typically feature a clear ceiling height of 9 - 10m during 2017-19. More recently, completed facilities feature ceilings in the 12 - 13m range, which allows extra vertical storage space. This can increase space efficiency by as much as 15-25%.
- + While the global supply chain pressures are easing, we anticipate occupiers to continue to follow 'just-in-case' strategies alongside 'just-in-time' ones to maintain agility to remain prepared for any risks that could materialize or persist in the future.


What more can unfold in the future?



- + India likely to remain a key manufacturing destination and among the top seaborne exporters by volume, thus driving demand for I&L assets.



- + Developers to consider emerging logistics hubs by investing in land banks closer to new infrastructure initiatives and lower tier cities.



- + The need for occupiers and developers to strengthen their ESG performance is anticipated to rise; new-age warehouse specifications would now include features such as green certifications, along with energy-saving & green operations.

Contacts

RESEARCH

Abhinav Joshi

Head of Research, India, Middle East and North Africa
abhinav.joshi@cbre.co.in

Sachi Goel

Head of South Research, India
sachi.goel@cbre.co.in

Raaj Thilak Raveendran

Senior General Manager
raajthilak.raveendran@cbre.co.in

Priya Verma

Deputy General Manager
priya.verma@cbre.com

BUSINESS LINE

Ram Chandnani

Managing Director,
Advisory & Transactions Services, India
ram.chandnani@cbre.co.in

Jasmine Singh

Senior Executive Director,
Advisory & Transaction Services, India
jasmine.singh@cbre.co.in

Rami Kaushal

Managing Director,
Consulting & Valuations, India, Middle East & Africa
rami.kaushal@cbre.co.in

GLOBAL RESEARCH

Richard Barkham, Ph.D., MRICS

Global Chief Economist & Head of Research
richard.barkham@cbre.com

Henry Chin

Global Head of Investor Thought Leadership & Head of Research, APAC
henry.chin@cbre.com.hk

Julie Whelan

Global Head of Occupier Thought Leadership
julie.whelan@cbre.com

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